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บริษัท เชียงใหม่ฟรอสเซนฟู้ดส์ จำกัด (มหาชน)

149/34 ซอยแองโกลพลาซ่า ถนนสุรวงศ์ แขวงสุริยวงศ์ เขตบางรัก กรุงเทพฯ 10500

CHIANGMAI FROZEN FOODS PUBLIC COMPANY LIMITED.

149/34 Soi Anglo Plaza Surawongse Rd., Suriyawongse, Bangrak, Bangkok 10500 Thailand

Tel : (662) 634-0061-4, 238-4091 Fax ; (662) 238-4090

10 August 2018

Subject: Management Discussion and Analysis for the period ended 30 June 2018

To: The President

The Stock Exchange of Thailand

Performance Overview

In the second quarter of 2018, Thailand's economy has gradually recovered as the export sector and tourism industry expanded, which in turns stimulated the domestic consumption and private investment. The recovery also fueled by the government spending which signaling a positive indicator in the quarter after shrinkage by the end of previous year. However, the export sector has confronted the increasing risks from the exchange rate fluctuation. In the second quarter of 2018, Thai Baht has sharply depreciated against US Dollar comparing to previous quarter, also be the most depreciated currency considered 6% depreciation comparing to other major currency. Further, the trade barriers policy applied by the US recently to apply import tax to some products on its trade partner, especially China, might increasing risk by triggering the trading retaliation policy and possibly start the trade war. For Japan, the Company's major importer, despite the signal for the economy expansion, the private consumption has further decline. However, the effects of the wage increasing policy which already applied is expected in the second half of 2018.

The Company has reached THB 333.48 Million of revenue from sale, considered the increasing of THB 62.41 Million, with Net Profit THB 37.88 Million, considered increasing of THB 16.30 Million. Comparing to previous quarter. The Net Profit Margin indicated 11.36%, increasing from 7.96% from the previous quarter, as the revenue growth from the increasing seasonal sales volume and the sharply depreciation of THB against USD. However, sales revenue considered decreased comparing to the second quarter of 2017, which decreased THB 38.76 Million., while the Net Profit has decreased THB 18.89 Million., majorly due to the appreciation of THB against USD. The average exchange rate is THB 31.80 / USD in this quarter, comparing to 34.12 / USD in the same quarter last year. In addition, the sale volume has declined comparing to the second quarter of 2017. The reduction of sales revenue considered 10.41%. Further, the cost of production has increasing comparing to the same quarter last year, which is the increasing minimum wages applied nationwide on this April, the increasing of Bunker oil from the global economy recovery. These has led to the decreased of the Net Profit Margin of 33.28% comparing to the second quarter of 2017.

The financial performance has significantly change more than 20%, whereby the Net Profit has decreased 33.28% comparing to the same quarter of previous year. The major contribution for such change is majorly from the strongly appreciation of THB against USD, considering the appreciation rate of 6.79% comparing to the second quarter of 2017,



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added by the decreased of sales volume, and the increasing cost of production from increasing minimum wage and fuel price. Finally, the net profit has greatly decreased.

The Company has no non-recurrent transaction indicated in the financial statements for the second quarter of 2018.

During the period, the company has not changed the accounting policy, but only the application of accounting standard which is mandatory applied. The mentioned change has not material to the financial statement.

The factors that would affect the business operation for the third quarter are as follows

1. The global economic condition especially Japan, though there are signs of economic recovery, but the target inflation is yet reached. However, the minimum wage increase policy should take effects on household consumption by the second half of 2018.
2. The volatility of exchange rate, especially THB though sharply depreciated against USD in the second quarter of 2018, the rate would reversed to appreciation stance as the trade barrier policy applied by USA would trigger trade war, which affected to the revenue recognition for the Company. However, as JPY has depreciated against USD, the situation is negative to the competitive advantage of the Company considering the pricing as the cost of product to the customer will be perceived as higher. This could put the pressure on the pricing negotiation with the customers during the period.
3. The fuel price which continuously increased could affect the increasing of production cost.
4. The withdrawal to participate in Trans Pacific Partnership (TPP) by USA affected US product as the import tax is imposed which allowed the Company an opportunity to increasing sales volume. Also, as Mr. Somkid Jatusripitak, Deputy Prime Minister, has announced that Thailand will consider joining the Comprehensive and Progressive Agreement of Trans-Pacific Partnership (CPTPP) which is the continuation of TPP by other potential member countries after USA has withdrawal, led by Japan.
5. The effective of the Royal Decree on Managing the Work of Aliens B.E. 2560 (2017) could cause the scarcity for the labor and eventually drive the labor cost to increase, especially in the agricultural industry and its related industry as these industries considered labor-intensive. However, as the government has relaxed the implementation by extending the registration period for alienate worker and the soften for the penalty, the intensity for the shortage of labor has been eased.



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Summary of Financial Performance

Revenue Structure

1. Sales Revenue

The Company has sales revenue majorly from the sales of frozen vegetables such as frozen soy beans, frozen green beans, frozen sweet corns and frozen mixed vegetables. The details of sales revenue, according to the consolidated financial statement categorized by the geographic is as follows,

Sales Revenue	Value (THB Million)			Increase (decrease)		Value (THB Million)		Increase (decrease)
	2 nd Quarter 2017	1 st Quarter 2018	2 nd Quarter 2018	% QoQ	% YoY	6M 2017	6M 2018	% YTD
Export Sales Revenue	366.34	267.29	325.64	21.83	(11.11)	694.15	592.93	(14.58)
Domestic Sales Revenue	5.90	3.78	7.84	107.51	32.85	11.16	11.62	4.06
Total Sales Revenue	372.24	271.07	333.48	23.02	(10.41)	705.31	604.55	(14.29)

In the second quarter of 2018, sales revenue indicated totaling THB 333.48 Million, of which export sales is 97.65% of total sales revenue, insignificantly decreased from proportion 98.61% comparing to the previous quarter. On the other hand, the proportion of domestic sales for the second quarter of 2018 is to 2.35%, insignificantly increased from 1.39% in the previous quarter.

Total sales revenue in the second quarter of 2018 has decreased THB 38.76 Million comparing to the second quarter of 2017 which presented THB 372.24 Million, equivalent to the decrease of 10.41%. This due to the strongly appreciation of THB against USD and the decrease of sales volume.

2. Other Revenue

In the second quarter of 2018, the company has indicated other revenue of THB 2.78 Million which decreased from THB 3.78 Million in the first quarter of 2018, equivalent to the decrease of 57.59%, majorly cause by the revenue from the other assets disposal activities. Also, the Company has revenue from investment THB 1.21 Million as the return from the investment in fixed income term fund and money market.

Cost of Goods Sold

Cost of goods sold in the second quarter of 2018 presented THB 268.66 Million, equivalent to the decrease of 1.04%, comparing to THB 271.49 Million in the second quarter of 2017. The major reasons for the decrease is as follows,

- The sales volume has decreased comparing to the same quarter in previous year. Since by the end of 2016, domestic produces in Japan has been damage by the extreme cold weather, then the order for the product has unusually increase continuously to the second quarter of 2017.



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- However, the overhead production cost per unit has increased as the increasing cost for the production factors such as minimum wage and fuel price.

Selling and Administration Expenses

In the second quarter of 2018, the Company has reported the selling and administration expenses of THB 40.61 Million which reduce from THB 43.16 Million as reported in the second quarter of 2017, equivalent to the decrease of 5.92% which derive from the transportation and export expenses which is the cost for the transportation of finished goods to be delivered at domestic sea port and the custom fee, is decrease due to the decreasing volume export.

Gross Profit Margin and EBIT Margin

The Gross Profit Margin for the second quarter of 2018 has increased to 19.44% comparing to 15.65% indicated in the previous quarter, while EBIT Margin has increased to 14.02% comparing to 9.74%. This is due to the sharply depreciation of THB against USD caused by the trade barrier policy applied by USA, and the increasing seasonal sales volume, despite the increasing production cost per unit as the increased minimum wage and bunker price. However, the Gross Profit Margin and EBIT Margin has declined comparing to the second quarter of 2017. The major reason for the decreasing revenue is the strong appreciation of THB against USD which considered 6.79% and the decreasing sales volume. On the other hand, the production cost per unit has increased as the minimum wage increased and the bunker price. Consequently, these factors have put the pressure on the Gross Profit Margin and as well EBIT Margin.

Net Profit

In the second quarter of 2018, the Company has indicated Net Profit of THB 37.88 Million, considered increasing 75.52% comparing to the previous quarter which presented THB 21.58 Million, whereas the Net Profit Margin has increased to 11.36% comparing to 7.96%. This is due to the sharply depreciation of THB against USD caused by the trade barrier policy applied by USA, and the increasing seasonal sales volume. However, the cost of production has increasing as the minimum wage has been increased started from last April, and the bunker cost has increased due to the global economic recovery. Also, the Selling and Administration Expenses moving in the same direction.

Comparing to the second quarter of 2017, the Net Profit has dropped 33.28% since the strong appreciation of THB against USD and the decreased of sales volume, while the cost of production has substantially increased such as minimum wages, bunker cost. In addition, the Selling and Administration Expenses has move in the same direction of these costs. Consequently, the Net Profit Margin has declined to 11.36%, comparing to 15.25%.



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Summary Table for the Financial Performance

	Value (THB Million)			Increase (decrease)		Value (THB Million)		Increase (decrease)
	2 nd Quarter 2017	1 st Quarter 2018	2 nd Quarter 2018	% QoQ	% YoY	6M 2017	6M 2018	% YTD
Sales Revenue	372.24	271.07	333.48	23.02	(10.41)	705.31	604.55	(14.29)
Cost of Goods Sold	271.49	228.65	268.66	17.49	(1.04)	506.58	497.31	(1.83)
Gross Profit	100.75	42.42	64.82	52.83	(35.66)	198.74	107.24	(46.04)
Gain (Loss) from Exchange Rate	8.73	14.11	18.56	31.49	112.51	7.48	32.67	336.53
Revenue from Investment	4.61	7.85	3.99	(49.17)	(13.45)	8.71	11.84	35.94
Other Revenue	43.16	37.97	40.61	6.94	(5.92)	85.24	78.58	(7.80)
Selling and Administration Expenses	70.92	26.40	46.76	77.12	(34.07)	129.70	73.16	(43.59)
Earnings Before Interest and Tax	56.78	21.58	37.88	75.52	(33.28)	103.77	59.47	(42.69)
Net Profit (Loss)	82.46	37.15	60.24	62.15	(26.94)	151.42	97.40	(35.68)
Earnings Before Interest, Tax, Depreciation and Amortization	95.71	(93.91)	32.37	134.47	(66.18)	15.80	(61.54)	(77.34)
Cash Flow from Operation	0.15	0.06	0.10					
Earnings per share (Baht)	3.78	3.84	3.74					

Key Financial Ratios

Key Financial Ratios	2 nd Quarter 2017	1 st Quarter 2018	2 nd Quarter 2018
Current Ratio (Times)	9.85	13.79	9.70
Quick Ratio (Times)	5.85	6.70	4.58
Gross Profit Margin (%)	27.07	15.65	19.44
EBIT Margin (%)	19.05	9.74	14.02
Net Profit Margin (%)	15.25	7.96	11.36
Return on Equity (%)	14.03	9.06	8.10
Return on Assets (%)	12.62	8.25	7.27
Debt To Equity Ratio (Times)	0.11	0.09	0.12



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Company's Financial Position

Assets

The Company has total assets according to the financial statements as of 30 June 2018 of THB 1591.84 Million comparing to THB 1,596.67 Million in the previous quarter, equivalent to the slightly decrease of 0.30%. The major decrease is from the decrease of cash and cash equivalent to purchase raw materials. As the seasonal sales increase, the inventory has decline to THB 547.09 Million comparing to THB 560.83 Million presented in the previous quarter, considered 2.45%

Trade Receivables in the second quarter of the year 2018 indicated THB 138.75 Million, increase from THB 100.92 Million presented in the previous quarter, equivalent to the increase of 37.48% as the seasonal sales volume has increased. The Company has policy to reserve for allowance for bad debt for the whole amount on any doubtful receivable, considering financial position of client and their historical payment. In the previous year, most of the client able to make payment within due.

Liabilities

The Company has total liabilities according to the financial statements as of 30 June 2018 of THB 164.81 Million which increase THB 33.51 Million, equivalent to the increase of 25.52%, comparing to the previous quarter. The major reason for the increased is the trade payable and other payable, which increased to THB 97.56 Million, comparing to THB 60.39 Million in the previous quarter.

As of 30 June 2018, the Company has liabilities obligation other than employee benefit which are

- Licensing agreement and consulting agreement for the usage of computer program and system for the amount of THB 0.5 Million
- Consulting agreement for financial advisor regarding the investment in Myanmar. The obligation amount according to the contract is THB 0.3 Million
- The Company might expose to the occurrence of obligation from the issuance of guarantee letter from bank against the government authorities for the amount of THB 11.0 Million

The Company has appropriate and sufficient liquidity for the payment of liabilities and obligation. In the second quarter of 2018, the Current Ratio indicated 9.70 times and the Quick Ratio of 4.58 times, while most of the current assets are in the form of cash and cash equivalent.

Currently, there is no file or active case of lawsuit against the Company.



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Shareholder's Equity

Shareholder's equity for the company presented in the financial statement for the period ended 30 June 2018 of THB 1,427.03 Million, decrease from THB 1,465.37 Million comparing to the previous quarter, equivalent to the decrease of 3.92%. The major contribution to the decrease is the inappropriate retained earnings which indicated THB 939.77 Million in the second quarter of 2018, comparing to THB 978.11 Million in previous quarter, equivalent to the decrease of 2.62%. The retain earnings has decreased due to resolution in the Annual General Meeting of Shareholders on 27 April 2018 which approved the dividend payment paid to the shareholders on 14 May 2018.

Cash flow and Capital Structure

The Company has net cash paid in operating activities as of 30 June 2018 of THB 61.54 Million, decreased THB 75.75 Million comparing to the same period last year. The major reason is cash received from sales is less than last year due to the appreciation of THB against USD and the decline of sales volume. Further, the Company has net cash provide by investing activities of THB 104.73 Million, of which THB 27.23 Million paid to acquisition of plants and equipment, and the Company has net cash used in financing activities of THB 77.13 Million

In the second quarter of the year 2018, the Company has sufficient liquidity which evidence from the current ratio of 9.70 times, though decrease from 13.79 times in previous quarter. The major assets are current assets equivalent to 70.81% of total assets. On the other hand, the Company has only 7.30% of current liabilities which mostly consists of trade payable. There is no outstanding borrowing from the financial institution.

The Company has not engage in any long term borrowing during the second quarter of 2018, whereas the debt to equity ratio slightly increase to 0.12 times comparing to 0.09 times indicated in the previous quarter.



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Summary Table for Company's Financial Position

	Value (THB Million)			Increase (decrease)		Increase (decrease)	
	2 nd Quarter 2017	1 st Quarter 2018	2 nd Quarter 2018	THB Million QoQ	% QoQ	THB Million YoY	% YoY
Current Assets							
Cash and short term investment	556.94	448.53	393.67	(54.87)	(12.23)	(163.27)	(29.32)
Inventory	155.48	122.29	186.49	64.20	52.50	31.01	19.94
Other current assets	427.61	560.83	547.09	(13.73)	(2.45)	119.49	27.94
Total Current Assets	1,140.03	1,131.65	1,127.25	(4.40)	(0.39)	(12.78)	(1.12)
Non-Current Assets							
Property Land and Equipment	357.69	357.06	357.54	0.48	0.13	(0.15)	(0.04)
Other Non-Current Assets	106.64	107.96	107.04	(0.91)	(0.85)	0.40	0.38
Total Non-Current Assets	464.33	465.02	464.58	(0.43)	(0.09)	0.26	0.05
Total Assets	1,604.36	1,596.67	1,591.84	(4.84)	(0.30)	(12.52)	(0.78)
Current Liabilities	115.75	82.05	116.16	34.11	41.57	0.41	0.36
Non-Current Liabilities	49.15	49.25	48.65	(0.60)	(1.22)	(0.50)	(1.02)
Total Liabilities	164.90	131.30	164.81	33.51	25.52	(0.09)	(0.05)
Shareholder's Equity	1,439.46	1,465.37	1,427.03	(38.34)	(2.62)	(12.43)	(0.86)

Please be informed accordingly

Faithfully yours,



Ankoon Pholpipattanaphong

Managing Director